

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF GREATER KOKSTAD MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Kokstad Municipality which comprise the balance sheet as at 30 June 2009, and the income statement, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 58 to 68.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

12. In my opinion the financial statements of the Greater Kokstad Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the entity-specific basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matter on which I do not express a qualified opinion:

Going concern

7. The municipality's financial statements reflected an accumulated deficit of R45,26 million which is largely attributable to a contribution to the provision for bad debts amounting to R36,26 million. The debtors collection days have deteriorated to 308 days and the creditors payments days to 82 days. These conditions, together with the shortfall of investments and cash invested in statutory funds of R44,75 million, cast doubt on the municipality's ability to continue as a going concern in the foreseeable future.

Fruitless and wasteful expenditure

8. As disclosed in note 22 to the financial statements, fruitless and wasteful expenditure to the amount of R89 894 was incurred due to late payments of VAT and INCA loans.

Other matters

Without qualifying my opinion, I draw attention to the following matter on which I do not express a qualified opinion:

Unaudited supplementary schedules

9. The supplementary budget information and other information set out on pages 69 to 74 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Governance framework

10. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in key governance requirements addressed below:

Key governance responsibilities

11. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is

the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out on section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 		<input type="checkbox"/>
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		<input type="checkbox"/>
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		<input type="checkbox"/>

No.	Matter	Y	N
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Greater Kokstad Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out on section 68 of the MFMA.	<input type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

12. Although annual financial statements were submitted timeously and key officials were available during the audit, material adjustments were made as a result of errors noted during the audit. This was as a result of a lack of ongoing monitoring and review. In addition, there was no internal audit unit, resulting in a lack of monitoring and review.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

13. I have reviewed the performance information as set out on pages 76 to 140.

The accounting officer's responsibility for the performance information

14. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

15. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
16. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
17. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

18. The assistance rendered by the staff of the Greater Kokstad Municipality during the audit is sincerely appreciated.

Auditor-General

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence